

17. NATIONAL INCOME AND PRODUCT ACCOUNTS

The National Income and Product Accounts (NIPA's) are an integrated set of measures of aggregate U.S. economic activity that are prepared by the Department of Commerce. Because the NIPA's include Federal transactions and are widely used in economic analysis, it is important to show the NIPA's distinctive presentation of Federal transactions and contrast it with the Budget.

One of the main purposes of the NIPA's is to measure the Nation's total production of goods and services, known as gross domestic product (GDP), and the incomes generated in its production. GDP is a measure of the Nation's final output, which excludes intermediate product to avoid double counting. Both government consumption expenditures and government gross investment—State and local as well as Federal—are included in GDP as part of final output, together with personal consumption expenditures, gross private domestic investment, and net exports of goods and services (exports minus imports).

Other government expenditures—transfer payments, grants to State and local governments, subsidies, and net interest payments—are not purchases of final output and as such are not included in GDP; however, these transactions are recorded in the NIPA government receipts and expenditure account, together with government consumption expenditures (which includes depreciation on government gross investment).

Federal transactions are included in the NIPA's as part of the government sector.¹ The Federal subsector is designed to measure certain important economic effects of Federal transactions in a way that is consistent with the conceptual structure of the entire set of integrated accounts. The NIPA Federal subsector is not itself a budget, because it is not a financial plan for proposing, determining, and controlling the fiscal activities of the Government. NIPA concepts differ in many ways from budget concepts, and therefore the NIPA presentation of Federal finances is significantly different from that of the budget.

Differences Between the NIPA's and the Budget

Federal transactions in the NIPA's are measured according to NIPA accounting concepts in order to be compatible with the purposes of the NIPA's and other transactions recorded in the NIPA's. As a result they differ from the budget in *netting*, *timing*, and *coverage*. These differences cause total receipts and expenditures in the NIPA's to differ from total receipts and outlays in the budget, albeit by relatively small amounts.² Dif-

ferences in timing and coverage also cause the NIPA current surplus or deficit to differ from the budget surplus or deficit. Netting differences have equal effects on receipts and expenditures and thus have no effect on the current surplus/deficit. Besides these differences, the NIPA's combine transactions into different categories from those used in the budget.

Netting differences arise when the budget records certain transactions as offsets to outlays while they are recorded as receipts in the NIPA's (or vice versa). The budget treats all income that comes to the Government due to its sovereign powers—mainly, but not exclusively, taxes—as governmental receipts. The budget offsets against outlays any income that arises from voluntary business-type transactions with the public. The NIPA's generally follow this concept as well, and all income to government enterprises such as the Postal Service or the power administrations is offset against expenditures. However, the NIPA's have a narrower definition of “business-type transactions”. Rents, royalties, and regulatory or inspection fees, which are classified as offsetting receipts in the budget, are recorded in the NIPA's as Government receipts (business nontaxes). The NIPA's include Medicare premiums as Government receipts, while the budget classifies them as business-type transactions (offsetting receipts).

In the budget, any intragovernmental income from one account to another is offset against outlays rather than being recorded as a receipt. Government contributions for Federal employee social insurance (such as social security) is an example: the budget offsets these payments against outlays. In contrast, the NIPA's treat the Federal Government like any other employer and show contributions for Federal employee social insurance as expenditures by the employing agencies and as governmental (rather than offsetting) receipts. The NIPA's also impute certain transactions that are not explicit in the budget. For example, unemployment benefits for Federal employees are financed by direct appropriations rather than social insurance contributions. The NIPA's impute social insurance contributions by employing agencies to finance these benefits—again, treating the Federal Government like any other employer.

Timing differences for receipts occur because the NIPA's generally record personal taxes and social insurance contributions when they are paid and business taxes when they accrue, while the budget generally records all receipts when they are received. Thus the NIPA's attribute corporations' final settlement payments back to the quarter(s) in which the profits that gave rise to the tax liability occurred. The delay between accrual of liability and Treasury receipt of payment can result in significant timing differences be-

¹The other subsector of the NIPA government sector is a single set of transactions for all U.S. State and local units of government, treated as a consolidated entity.

²Over the period 1993–2001, NIPA current expenditures averaged three percent higher than budget outlays, while NIPA current receipts averaged one percent higher than budget receipts.

tween NIPA and Budget measures of receipts for any given accounting period.

Timing differences also occur for expenditures. When the first of a month falls on a weekend, monthly benefit checks normally mailed on the first of the month may be mailed out a day or two earlier; the budget then reflects two payments in one month and none the next. On occasion, the budget totals reflect 13 monthly payments in one year and only 11 the next. NIPA expenditure figures always reflect 12 benefit payments per year, giving rise to a timing difference compared to the budget.

Coverage differences also differentiate the budget and the NIPA's. Unlike the budget, the NIPA's exclude transactions with U.S. territories. The NIPA's also exclude the proceeds from the sales of nonproduced assets such as land. Bonuses paid on Outer Continental Shelf oil leases and proceeds from broadcast spectrum auctions are shown as offsetting receipts in the budget and are deducted from budget outlays. In the NIPA's these transactions are excluded as an exchange of assets with no production involved.

A type of coverage difference arises on the expenditure side because of the NIPA treatment of government investment. The budget includes outlays for Federal investments as they are paid, while the Federal sector of the NIPA instead excludes current investments but includes a depreciation charge on past investments ("consumption of general government fixed capital") as part of "current expenditures." The inclusion of depreciation on fixed capital (structures, equipment and software) in current expenditures is a proxy for the services that capital renders; i.e., for its contribution to government output of public services.

The treatment of government pension plan income and outgo creates a coverage difference. Where the budget treats employee payments to these pension plans as governmental receipts, and employer contributions by agencies as offsets to outlays, the NIPA's treat both of these components of employee compensation as personal income, in the same way as it treats contributions to pension plans in the private (household) sector. Likewise, the budget records a government check to a retired government employee as a current outlay, but under NIPA concepts, no government expenditure occurs at that time; the payment is treated (like private pension payments) as a transfer of income within the household sector.

Federal investment grants to State and local governments (such as for interstate highway construction), investment subsidies to business, and forgiveness of debt owed by foreign governments are included as outlays in the budget but excluded from the NIPA's as being capital transfers unrelated to current economic production. Likewise, estate and gift taxes, included in budget receipts, are excluded from the NIPA's as capital transfers.

Financial transactions such as loan disbursements, loan repayments, loan asset sales, and loan guarantees are excluded from the NIPA's on the grounds that such

transactions simply involve an exchange of assets with no production involved. In contrast, under the Federal Credit Reform Act of 1990, for direct loan obligations and loan guarantee commitments made after 1991, the budget records the estimated subsidy cost of the direct loan or loan guarantee as an outlay when the loan is disbursed. The cash flows with the public are recorded in nonbudgetary accounts as a means of financing the budget rather than as budgetary transactions themselves. This treatment recognizes that part of a Federal direct loan is an exchange of assets with equal value but part is a subsidy to the borrower. It also recognizes the subsidy normally granted by loan guarantees. In the NIPA's, neither the subsidies nor the loan transactions are included. However, the NIPA's, like the budget, include all interest transactions with the public, including net interest paid to the loan financing accounts.

Deposit insurance outlays for resolving failed banks and thrift institutions are similarly excluded from the NIPA's on the grounds that there are no offsetting current income flows from these transactions. In 1991, this exclusion was the largest difference between the NIPA's and the budget and made the NIPA current deficit significantly smaller than the budget deficit that year. In subsequent years, as assets acquired from failed financial institutions were sold, these collections tended to make the budget deficit smaller than the NIPA current deficit.

Federal Sector Current Receipts

Table 17-1 shows Federal current receipts in the four major categories used in the NIPA's, which are similar to the budget categories but with significant differences.

Personal tax and nontax receipts is the largest category of current receipts. It is composed primarily of the individual income tax, but also includes fees, fines, and other receipts from persons.

Corporate profits tax accruals differs in classification from the corresponding budget category primarily because the NIPA's include the deposit of earnings of the Federal Reserve System as corporate profits taxes, while the budget treats these collections as miscellaneous receipts. The timing difference between the NIPA's and the budget is especially large for corporate receipts.

Indirect business tax and nontax accruals is composed of excise taxes, customs duties, royalties, fines, and other receipts from business.

Contributions for social insurance differs from the corresponding budget category primarily because: (1) the NIPA's include Federal employer contributions for social insurance as a governmental receipt, while the budget offsets these contributions against outlays as undistributed offsetting receipts; (2) the NIPA's include premiums for Part B of Medicare as governmental receipts, while the budget nets them against outlays; (3) the NIPA's treat government employee contributions to their pension plans as personal income, while the budget includes them in governmental receipts; and (4) the

Table 17-1. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 1993-2004

(In billions of dollars)

Description	Actual										Estimate	
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
CURRENT RECEIPTS												
Personal tax and nontax receipts	500.9	541.2	583.7	654.7	736.3	822.7	878.7	997.2	1,006.4	845.7	826.5	840.4
Corporate profits tax accruals	131.0	152.5	177.8	187.8	198.6	206.4	207.8	226.5	185.4	167.7	161.7	191.0
Indirect business tax and nontax accruals	84.1	94.2	93.8	90.3	97.9	97.3	98.4	107.9	111.5	108.9	112.5	116.4
Contributions for social insurance	458.4	487.9	515.8	535.8	566.1	604.2	641.1	687.9	712.8	724.6	762.0	807.3
Total current receipts	1,174.3	1,275.8	1,371.0	1,468.6	1,599.0	1,730.7	1,826.0	2,019.5	2,016.2	1,846.9	1,862.7	1,955.0
CURRENT EXPENDITURES												
Consumption expenditures	444.8	441.6	441.5	435.8	453.8	452.0	466.9	490.3	516.3	573.7	614.9	646.7
Defense	311.1	304.6	299.6	295.5	304.0	300.3	306.4	320.8	337.3	373.9	398.7	415.5
Nondefense	133.7	137.1	141.9	140.2	149.8	151.7	160.5	169.5	179.0	199.8	216.2	231.1
Transfer payments	590.2	614.8	646.6	680.4	711.0	727.9	741.3	770.3	826.0	907.9	965.4	993.7
To persons	573.4	599.3	633.8	668.6	699.9	716.9	730.5	756.8	816.3	894.3	951.7	979.5
To the rest of the world	16.8	15.5	12.8	11.9	11.2	11.0	10.7	13.5	9.7	13.6	13.7	14.2
Grants-in-aid to State and local governments	157.7	172.8	184.3	188.4	191.9	207.2	225.4	244.0	268.8	297.0	330.6	353.4
Net interest paid	228.4	234.0	261.9	272.6	275.4	278.3	267.1	263.0	247.9	217.4	207.8	221.8
Subsidies less current surplus of Government enterprises	38.6	32.9	34.3	34.4	30.8	31.8	34.7	49.9	51.2	39.2	39.1	40.5
Wage disbursements less accruals												
Total current expenditures	1,459.7	1,496.0	1,568.6	1,611.6	1,663.0	1,697.1	1,735.4	1,817.5	1,910.2	2,035.2	2,157.9	2,256.2
Current surplus or deficit (-)	-285.4	-220.2	-197.5	-143.0	-64.0	33.5	90.5	202.0	106.0	-188.3	-295.2	-301.2
ADDENDUM												
Gross investment	86.2	82.1	83.0	85.5	80.7	85.0	90.3	96.0	98.0	105.6	113.1	118.7
Defense	56.8	55.2	53.7	54.9	47.9	49.6	50.9	53.0	55.1	58.7	61.9	64.7
Nondefense	29.4	26.9	29.3	30.6	32.9	35.4	39.3	43.0	42.9	46.9	51.2	54.0

* \$50 million or less.

NIPA's impute employer contributions for Federal employees' unemployment insurance and workers' compensation.

Federal Sector Current Expenditures

Table 17-1 shows current expenditures in the six major NIPA categories, which are very different from the budget categories.

Government consumption expenditures are the goods and services purchased by the Federal Government in the current account, including compensation of employees and depreciation. Gross investment (shown as addendum items in Table 17-1) is thus excluded from current expenditures in computing the government current surplus or current deficit on a NIPA basis, whereas depreciation—charges on federally owned fixed capital—"consumption of general government fixed capital" is included. The NIPA's treat State and local investment and capital consumption in the same way—regardless of the extent to which it is financed with Federal aid (capital transfers) or from State and local own source receipts.

Although gross investment is not included in government current expenditures, both government gross investment and current consumption expenditures (including depreciation) are included in total GDP, which makes the treatment of the government sectors in the

NIPA's similar to that of the private sector. Investment includes structures, equipment, and computer software.

Transfer payments are the largest expenditure category. Transfer payments to persons are mainly for income security and health programs, such as Social Security and Medicare. Payment of pension benefits to former government employees is not included, as explained previously. Transfer payments to the rest of the world include grants to foreign governments and payments under Social Security and other similar programs to individuals living abroad.

Grants-in-aid to State and local governments help finance a range of programs, including income security, Medicaid, and education (but capital transfers for construction of highways, airports, waste-water treatment plants, and mass transit are excluded).

Net interest paid is the interest paid by the Government on its debt (excluding debt held by trust funds, other than Federal employee pension plans; and other Government accounts), less interest received on its loans.

Subsidies less current surplus of Government enterprises consist of two elements: (1) subsidy payments for resident businesses (excluding subsidies for investment); and (2) the current surplus (or deficit) of "Government enterprises," such as the Postal Service, which are business-type operations of Government that usually appear in the budget as public enterprise revolving

funds. Depreciation (consumption of enterprise fixed capital) is netted in calculating the current surplus of government enterprises.

NIPA subsidies do not include the imputed credit subsidies estimated as budget outlays under credit reform. Rather, loans and guarantees are categorized as financial transactions and are excluded from the NIPA's except for associated interest and fees.

Wage disbursements less accruals is an adjustment that is necessary to the extent that the wages paid in a period differ from the amount earned in the period.

Differences in the Estimates

Since the introduction of the unified budget in January 1968, NIPA receipts have been less than budget receipts in most years. This is due principally to the fact that estate and gift taxes, which they exclude as capital transfers, have exceeded Medicare premiums, which they include as a governmental receipt but the budget treats as an offsetting receipt. (In the budget, offsetting receipts are netted against the outlay total and not included in the governmental receipts total.) NIPA current expenditures have usually been higher than budget outlays (from which the Medicare premiums and employer retirement contributions are netted out as offsetting receipts), despite the omission from NIPA expenditures of grants for capital construction and pension benefit payments to former government employees.

Two components of budget outlays, however, are sometimes sufficiently large in combination to match the netting adjustments. These are financial transactions and net investment (the difference between gross investment and depreciation). Large outlays associated with resolving the failed savings and loan associations and banks in 1990 and 1991 caused those year's budget outlays to exceed NIPA current expenditures. With the change in budgetary treatment of direct loans in 1992 under credit reform, one type of financial transaction—direct loans to the public—has been recorded in the budget in a way that is closer to the NIPA treatment. Disbursement and repayment of loans made since that time are recorded outside the budget as in the Federal sector of the NIPA's, although, unlike the NIPA's, credit subsidies are recorded as budget outlays.

During the period 1975–1992, the budget deficit exceeded the Federal current deficit as measured in the NIPA's every year. The largest difference, \$78.6 billion, occurred in 1991 as a result of resolving failed financial institutions as discussed above; the budget deficit was then \$269.3 billion, while the NIPA current deficit was \$190.7 billion. In 1993–1997, the NIPA current deficit was slightly larger than the budget deficit each year. For 1998–2001, the NIPA current surplus was lower than the budget surplus. For 2002 the NIPA current deficit was larger than the budget deficit, while those for 2003 and 2004 are projected to be slightly smaller.

Table 17-2. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPA's

	Actual										Estimate	
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
RECEIPTS												
Budget receipts	1,154.4	1,258.6	1,351.8	1,453.1	1,579.3	1,721.8	1,827.5	2,025.2	1,991.2	1,853.2	1,836.2	1,922.0
Contributions to government employee retirement plans	-4.8	-4.7	-4.6	-4.5	-4.4	-4.3	-4.5	-4.8	-4.7	-4.6	-4.5	-4.5
Capital transfers received	-12.3	-15.1	-14.5	-17.1	-19.7	-23.9	-27.6	-28.8	-28.2	-26.3	-20.0	-23.2
Other coverage differences	-2.0	-2.4	-2.5	-3.6	-3.8	-6.2	-7.0	-8.0	-8.8	-8.9	-10.1	-10.2
Netting and grossing	37.5	39.2	37.3	37.0	41.6	40.8	41.6	45.4	49.9	53.7	58.9	62.0
Timing differences	1.6	0.1	3.4	3.6	6.0	2.5	-3.9	-9.6	16.8	-20.2	2.2	8.9
NIPA current receipts	1,174.3	1,275.8	1,371.0	1,468.6	1,599.0	1,730.7	1,826.0	2,019.5	2,016.2	1,846.9	1,862.7	1,955.0
EXPENDITURES												
Budget outlays	1,409.5	1,461.9	1,515.8	1,560.5	1,601.2	1,652.6	1,701.9	1,788.8	1,863.9	2,011.0	2,140.4	2,229.4
Government employee retirement plan transactions	31.7	30.1	29.0	27.0	31.8	31.6	32.2	31.5	31.8	33.9	31.1	35.0
Deposit insurance and other financial transactions	20.2	1.5	7.1	-2.0	-7.9	-7.1	-15.9	-2.8	-14.2	6.8	-3.1	-3.5
Capital transfers paid	-23.2	-24.6	-27.1	-27.6	-28.8	-28.2	-31.3	-35.0	-39.7	-43.9	-42.6	-43.3
Net purchases of nonproduced assets	-0.2	-0.2	7.4	0.1	11.0	5.2	1.6	0.2	0.9	-0.2	-0.1	—*
Net investment	-8.3	-1.4	0.4	-0.5	5.6	2.8	0.2	-1.1	0.1	-4.6	-8.3	-9.5
Other coverage differences	-8.1	-4.8	-3.0	3.0	11.5	0.9	2.7	4.1	8.1	-17.9	-20.0	-20.6
Netting and grossing differences	37.5	39.2	37.3	37.0	41.6	40.8	41.6	45.4	49.9	53.7	58.9	62.0
Timing differences	0.6	-5.7	1.7	14.0	-3.0	-2.1	2.5	-13.6	9.4	-3.5	1.7	6.6
NIPA current expenditures	1,459.7	1,496.0	1,568.6	1,611.6	1,663.0	1,696.4	1,735.4	1,817.5	1,910.2	2,035.2	2,157.9	2,256.2
ADDENDUM												
Budget surplus or deficit (-)	-255.1	-203.3	-164.0	-107.5	-22.0	69.2	125.5	236.4	127.1	-157.8	-304.2	-307.4
NIPA current surplus or deficit (-)	-285.4	-220.2	-197.5	-143.0	-64.0	33.5	90.5	202.0	106.0	-188.3	-295.2	-301.2

* \$50 million or less.

Table 17-3. FEDERAL RECEIPTS AND EXPENDITURES IN THE NIPA's, QUARTERLY, 2002-2004

(In billions of dollars; seasonally adjusted at annual rates)

Description	Actual				Estimate							
	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.
	2001	2002	2002	2002	2002	2003	2003	2003	2003	2004	2004	2004
CURRENT RECEIPTS												
Personal tax and nontax receipts	1,025.5	874.8	856.6	837.5		827.9	835.9	855.3	875.6	819.4	840.7	862.9
Corporate profits tax accruals	142.9	170.5	180.2	181.1		166.6	166.3	169.7	180.3	192.1	205.2	219.4
Indirect business tax and nontax accruals	107.3	108.4	110.2	112.4		114.8	115.7	116.7	117.8	118.9	119.8	120.5
Contributions for social insurance	716.6	731.1	736.7	743.0		767.8	777.6	788.0	797.7	812.9	822.1	831.8
Total current receipts	1,992.3	1,884.7	1,883.7	1,874.0		1,877.0	1,895.5	1,929.7	1,971.3	1,943.3	1,987.8	2,034.6
CURRENT EXPENDITURES												
Consumption expenditures	543.6	566.3	581.0	589.8		603.3	610.2	615.9	623.7	634.7	644.0	648.5
Defense	356.0	372.1	382.5	388.9		397.1	401.3	404.1	407.8	413.7	419.3	421.3
Nondefense	187.5	194.2	198.6	200.9		206.3	208.9	211.9	215.9	221.0	224.6	227.2
Transfer payments	870.9	916.9	927.6	934.1		968.5	961.7	967.0	971.5	997.7	989.1	992.7
Domestic ("to persons")	855.6	894.1	917.0	924.4		944.6	949.3	954.5	957.3	973.1	977.1	982.5
Foreign	15.3	22.8	10.6	9.7		23.9	12.3	12.5	14.2	24.5	12.0	10.2
Grants-in-aid to State and local governments	289.4	292.3	309.6	305.0		326.2	333.4	340.7	343.0	349.4	354.6	362.1
Net interest paid	221.6	208.5	214.9	205.8		202.1	203.0	205.4	209.6	214.3	219.8	225.7
Subsidies less current surplus of Government enterprises	45.5	46.6	46.3	39.9		41.0	42.2	42.9	43.1	43.5	43.9	44.0
Wage disbursements less accruals												
Total current expenditures	1,971.0	2,030.5	2,079.3	2,074.6		2,141.1	2,150.4	2,171.9	2,190.8	2,239.7	2,251.4	2,273.0
Current surplus	21.3	-145.8	-195.6	-200.7		-264.1	-254.9	-242.2	-219.5	-296.3	-263.6	-238.4
ADDENDUM												
Gross investment	103.4	105.7	107.1	107.9		112.0	112.2	115.9	116.0	117.2	117.8	120.6
Defense	56.8	59.7	59.6	62.4		63.0	62.1	65.0	64.9	65.5	65.2	67.0
Nondefense	46.6	46.1	47.5	45.5		49.0	50.1	51.0	51.1	51.8	52.6	53.6

Department of Commerce advance estimates for the Oct.-Dec. quarter, released January 30, 2003, were not available in time for inclusion in this table.

* \$50 million or less.

Table 17-1 displays Federal transactions using NIPA concepts with actual data for the years 1993-2002 and estimates for 2003 and 2004 consistent with the Administration's budget proposals. Table 17-2 summarizes the reasons for differences between the data using budget concepts and NIPA concepts. Table 17-3 displays quarterly data using NIPA concepts beginning in October 2001. Annual NIPA data for 1960-2004 are published

in Section 14 of a separate budget volume, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2004*.

Additional detailed estimates of NIPA current receipts and expenditures will be published in a forthcoming issue of the Department of Commerce publication, *Survey of Current Business*.